

# **TIFIA Trailblazers**

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**Alameda Corridor Transportation Authority**

**San Joaquin Hills Transportation Corridor Agency**

**Foothill/Eastern Transportation Corridor Agency**

The following three case studies describe the first surface transportation projects ever to receive Federal credit assistance. The award of credit assistance to these projects required special legislative approval and predated the enactment of the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA).

These projects led the way for the TIFIA program in two ways. First, each financing arrangement facilitated the design of the TIFIA program in terms of both statutory language and implementing regulations. Second, the projects' success in leveraging the Federal contribution with private capital substantiated the capacity of Federal credit assistance to advance major transportation investments at a reduced cost to the Federal Government.

## **Case Study: Alameda Corridor Los Angeles, California**

In January 1997, the DOT and the Alameda Corridor Transportation Authority (ACTA) entered into a loan agreement that provides \$400 million in project financing for the Alameda Corridor Project. This project is comprised of rail and road improvements that, once completed, will consolidate port-related freight traffic onto a 20-mile high speed, high capacity, and fully grade-separated transportation corridor linking the San Pedro Bay Ports with key transcontinental rail yards near downtown Los Angeles.

The San Pedro Bay port complex consists of the adjacent Ports of Los Angeles and Long Beach. Together, they represent the Nation's largest port facility, handling about 25 percent of the Nation's international waterborne trade valued at \$120 billion per year. The ports are a key gateway to the burgeoning Pacific Rim, handling cargo for numerous industries, shipping to virtually every region of the country. In addition to relieving local congestion and creating 10,000 construction-related jobs, the project will expedite the nationwide delivery of freight and generate far-reaching economic benefits.

### **Project Background and Description**

Over the last several decades, the growth of the San Pedro Bay seaports as centers of international commerce has strained the ability of the current transportation infrastructure to accommodate approximately 108 million tons of freight cargo passing through the ports on an annual basis. That is why, after 20 years of discussion and analysis, city leaders and port officials, with the help of the Federal government, are beginning construction of rail and road facilities that will vastly improve the connection between the two ports and the region's rail hub near downtown Los Angeles. The \$2.4 billion Alameda Corridor project will include construction of:

- a 10-mile, 30-foot-deep trench to accommodate two parallel rail lines;
- various grade separations to prevent interference between road and rail traffic;
- a bridge spanning the Los Angeles River;
- improvements to street access along the 20-mile corridor; and
- additional lanes for strategic segments of corridor roadways.

### **Financial Obstacles to Project Development**

The high cost of the Alameda Corridor and the project's unusual revenue sources (container fees and port charges) presented a substantial barrier to ACTA's ability to advance the project in a timely manner. Though the Alameda Corridor is designated as a High Priority Corridor on the National Highway System, the size and scope of the project made it difficult for ACTA to attract sufficient capital from traditional sources. Seeking a supplementary source of capital, ACTA initially requested Federal assistance in the form of a special \$700 million grant. Due to Federal budgetary constraints, however, the grant was not deemed to be a fiscally or politically viable option. An alternative form of Federal support for this project was needed, and by 1997 the answer was clear: Federal credit enhancement in the form of a junior-lien loan to ACTA.

## Plan of Finance

As shown in the following table, the Federal loan is but one piece of a complex financial package. The Los Angeles and Long Beach port commissions have already paid \$411 million in right-of-way costs for the property located along the corridor route and other related costs. In 1999, ACTA issued \$998 million of senior tax-exempt and senior taxable bonds and an additional \$171 million in revenue bonds that are subordinate to the federal loan. Grant funds will cover \$371 million of project costs, including \$347 million supplied by the Los Angeles County Metropolitan Transportation Authority from its allocation of the State's regular Federal-aid funds.

**Alameda Corridor  
Sources of Funds (in \$Millions)**

Bond Proceeds	\$1,161
Contributed Capital (San Pedro Bay Ports)	411
Federal Loan	400
Grants (MTA, State, and Other)	371
Interest Earnings and Miscellaneous Income	89
<b>Total</b>	<b>\$2,432</b>

## Direct Federal Loan

The fiscal year 1997 Omnibus Consolidated Appropriations Act (Public Law 104-208) provided \$58.7 million for DOT to cover the capital reserve charges associated with making a direct loan of up to \$400 million to ACTA for the Alameda Corridor Project. This represents an actual budgetary cost of 14.7 percent of the face value of credit assistance. The legislation also provided that the loan be repaid within 30 years from the date of project completion and that the interest rate on the loan not exceed the 30-year Treasury rate.

### FEATURES AND STATUS OF THE LOAN

The \$400 million Federal loan accounts for approximately 16 percent of project costs. The loan is secured by a rate covenant, but is structured to include flexible repayment provisions that allow scheduled principal and interest payments to be deferred (with interest) in the event of insufficient project revenues. The Federal loan's claim on revenues is junior to that of ACTA's senior bonds, which were issued in early 1999. The combination of the flexible payment structure and the subordinate lien enhanced the coverage ratio on ACTA's senior bonds and thus facilitated ACTA's ability to obtain a favorable rating on its senior debt, and substantially reduce its interest expenses and transaction costs.

The DOT provided the \$400 million loan to ACTA in three disbursements of \$140 million, \$140 million, and \$120 million in September 1997, 1998, and 1999, respectively. The loan accrues interest at a rate of 6.52 percent through October 1, 2001, and thereafter at a rate of 6.79 percent. ACTA's repayment of principal and interest is expected to commence upon substantial completion of the project, currently estimated for December, 2002.

### LEVERAGING EFFECTS

At a budgetary cost of \$59 million, the Federal government is providing a \$400 million loan that will help advance this \$2.432 billion project with significant local, regional, and national benefits. This represents a leveraging ratio of 41 to 1 in terms of capital investment induced to Federal budgetary resources consumed.

## **Additional Information**

For more information, visit the project website at: <http://www.acta.org/>

# **Case Study: Transportation Corridor Agencies (TCA) Toll Roads Orange County, California**

The Transportation Corridor Agencies (TCA) are multi-jurisdictional authorities charged with construction of new toll road facilities in Orange County, California. To finance construction of its toll roads, TCA sold two separate bond issues, each raising well in excess of one billion dollars. In the case of the San Joaquin Hills Transportation Corridor (SJHTC), TCA sold \$1.2 billion in senior-and junior-lien bonds in 1993 and refunded those issues with a subsequent sale of \$1.5 billion in senior-lien bonds in 1997. In the case of the Foothill/Eastern Transportation Corridor (F/ETC), the TCA sold \$1.5 billion in senior- and junior-lien bonds in 1995.

In the cases of the 1995 sale for the Foothill/Eastern project and the 1997 refunding for the San Joaquin Hills project, Federal credit enhancement in the form of a standby line of credit supported project financing. Special Federal legislation that pre-dated the Transportation Infrastructure Finance and Innovation Act (TIFIA) authorized the Department of Transportation (DOT) to provide the two lines of credit, which provide partial security underpinning each bond issue. Each project's line of credit makes up to \$120 million available for a 10-year period upon completion of each facility. They are available provide limited supplemental capital for extraordinary repair and replacement of facilities; unexpected Federal or State environmental restrictions; operations and maintenance expenses; and, debt service in the event that traffic shortfalls arise with an adverse impact on revenues (impairing debt service coverage) during the early years of operation.

## **SAN JOAQUIN HILLS CORRIDOR**

### **Project Description**

The SJHTC is a 15-mile, six-lane, limited access highway in southwestern Orange County. It opened to traffic in November, 1996 and is designed to relieve congestion on the heavily traveled I-405, I-5, and Pacific Coast Highway, as well as other major arterial roads in the county. The toll road's design includes a median to allow for the future construction of general purpose lanes, high occupancy vehicle lanes, or transit options.

The project was constructed pursuant to a design/build contract with a guaranteed maximum price and guaranteed completion date. The corridor operates as a toll facility and will continue to do so until the bonds are retired. The State of California assumed ownership of the SJHTC in June 1997 and the California Department of Transportation (Caltrans) is responsible for traffic operations, maintenance, and liability, pursuant to a Cooperative Agreement between TCA and Caltrans. The toll collection facilities and equipment have been provided by Lockheed Martin IMS, which is responsible for system design, installation, operations, and maintenance of the toll facilities under a purchase agreement and operations contract with TCA.

### **Plan of Finance**

Total costs for the initial project were approximately \$1.45 billion. The initial sources of funds included a combination of senior- and junior-lien tax-exempt toll revenue bonds, vendor financing, development impact fees, and Federal and State funding as outlined in the following table.

**San Joaquin Hills Corridor  
1993 Sources of Funds (in \$ Millions)**

Senior-Lien Toll Revenue Bond Proceeds	\$1,079
Junior-Lien Toll Revenue Bond Proceeds	91
Third-lien Vendor Financing Note Proceeds	38
Advance-Funded Development Impact Fees	31
California Transportation Commission Grant	40
State and Local Transportation Partnership Program	71
Interest Earnings	106
<b>Total</b>	<b>\$1,456</b>

Nearly \$1.1 billion of senior-lien toll revenue bonds were issued in 1993. They were rated BBB by Fitch Investors Service, Inc. An additional \$91 million of non-rated bonds were issued on a junior-lien basis and sold to institutional investors. In addition, almost \$38 million of third-lien vendor financing notes were purchased by the project's developers as part of their compensation under the design/build contract in lieu of cash. This served to align the interest of the developers with those of the senior and junior bond holders in seeking a commercially successful project.

State and local funding support for the project was provided through the 1992 State Transportation Improvement Program (STIP) and the California State and Local Transportation Partnership Program (SLTPP). Approximately \$40 million was allocated under the STIP for the purpose of funding a portion of the construction costs of connecting the SJHTC to I-5. The SLTPP contributed approximately \$71 million.

In 1997 the TCA sold \$1.45 billion of new toll revenue bonds with which it refunded all but \$220 million of the outstanding 1993 bonds. Of the bonds issued, 51 percent are insured by MBIA and carry ratings of AAA, Aaa, and AAA from Fitch, Moody's, and Standard & Poor's, respectively. The refinancing lowered the debt interest rate by 1.8 percent and will generate \$38 million in present value cash flow savings between 2000 and 2012. The Federal line of credit, described below, remains available to the project post-refunding, and the line of credit's enhancement of debt service coverage played a significant role in improving the underlying ratings of all project debt issued in 1997.

### **Federal Line of Credit**

In Federal fiscal year 1993, Congress appropriated \$9.6 million to fund the capital reserve (or subsidy) costs of a \$120 million Federal line of credit available to TCA during the first five years of the toll road's operation. A provision in the fiscal year 1996 DOT Appropriations Act subsequently extended the availability of the line of credit to 10 years and specified four purposes for which the line of credit could be used. In summary, the Federal line of credit is available in the event toll revenues and standard reserves are not sufficient to cover: (i) debt service, (ii) costs of extraordinary repair and replacement, (iii) costs of complying with unexpected Federal or State environmental restrictions, and/or (iv) operating and maintenance expenses. The availability of the line of credit for this broad array of purposes enabled bond counsel to render an opinion that the line of credit did not constitute a federal guarantee of tax-exempt debt, which was critical to the utility of the line of credit.

## FEATURES AND STATUS OF THE LINE OF CREDIT

Only ten percent of the line (\$12 million) is available in any one year, meaning that the total available credit amount declines by \$12 million per year over the 10 years for which it is available (January 1, 1998 through December 31, 2007). Any draws for capital expenditures, debt service, or other expenses (excluding operations and maintenance) must be repaid within 30 years at the rate on the 30-year Treasury bond at the time the draw is made. Draws for operations and maintenance expenses must be repaid within three years at the corresponding three-year Treasury rate at the time the draw is made.

## LEVERAGING EFFECTS

At a budgetary cost of \$9.6 million, the Federal government is providing a \$120 million line of credit that has helped to advance a \$1.4 billion transportation facility. This represents a leveraging ratio of 146 to 1 in terms of capital investment induced to Federal budgetary resources allocated.

## FOOTHILL/EASTERN TRANSPORTATION CORRIDOR

### Project Description

The Foothill/Eastern Transportation Corridor (F/ETC) is the second new public toll facility being constructed by the TCA. It comprises 52 miles of the overall 67-mile beltway system being implemented by the TCA. The F/ETC is comprised of two principal segments: the 24-mile Eastern Transportation Corridor and the 28-mile Foothill Transportation Corridor. The Foothill segment is further subdivided into a 12-mile northern segment ("Foothill North") and a 16-mile southern segment (surprisingly, "Foothill South").

These various segments are at various stages of development, as shown in the following table.

Segment	Status
Eastern Transportation Corridor	open to traffic by early 1999
Foothill North	portions opened in 1993 and 1995; entire facility open to traffic by early 1999
Foothill South	in environmental review and alignment selection process, expected to open to traffic in 2003

The entire 52-mile F/ETC system will provide direct access between Riverside County's residential areas and Orange County's central and southern suburbs as well as northern San Diego County. The roads will initially include two to three lanes initially in each direction, depending upon the segment, with future expansion capacity in the median available for general purpose lanes, high-occupancy vehicle lanes, or transit use.

As with the SJHTC, the F/ETC has been developed by a design/build consortium pursuant to a contract guaranteeing a maximum price and completion date. As segments are completed and accepted by Caltrans they will become part of the existing State highway system and will operate as a toll facility until the bonds are retired. As with the SJHTC, Caltrans will be responsible for traffic operations, maintenance,

and liability, pursuant to a cooperative agreement between TCA and Caltrans. Pursuant to the terms of an agreement between Lockheed Martin IMS and TCA, Lockheed will design, construct, operate, and maintain the integrated toll collection and management system. TCA will retain ownership of the toll collection system and equipment for the F/ETC.

## Plan of Finance

Total project costs for the Eastern Transportation Corridor, Foothill North, and a small portion of Foothill South are \$1.8 billion. These elements of the overall F/ETC were financed in 1995 through a variety of sources, including a combination of fixed and variable rate revenue bonds, State funds, vendor financing, and a contribution from TCA. The sources of funds are outlined in the following table.

**Foothill/Eastern Transportation Corridor  
Sources of Funds (in \$Millions)**

Fixed rate revenue bond proceeds	\$1,263
Variable Rate Bond Proceeds	246
State & Local Transportation Partnership Program	35
Project Revenue Certificates	24
1993 Bond Funds	36
TCA Contribution	6
Interest Earnings	198
<b>Total</b>	<b>\$1,808</b>

A total of \$1.26 billion of tax-exempt fixed rate toll revenue bonds were issued in 1995. The fixed rate bonds were rated BBB, Baa3, and BBB- by Fitch, Moody's and Standard & Poor's, respectively. An additional \$246 million of variable rate bonds were secured by development impact fees and further backed by direct pay letters of credit provided by a consortium of banks.

The Project Revenue Certificates are notes issued by TCA to the contractor for a portion of the design/build contract price (up to \$16 million) and for potential design/build contract price increases (\$8 million) as deferred compensation. The certificates issued for the design/build contract will be repaid from the project contingency funds, to the extent funds are available, or from net toll revenues subordinate to any payments made with respect to the revenue bonds.

The California State and Local Transportation Partnership Program (SLTPP) provides State matching funds for certain locally funded and constructed highway and mass transit projects. Approximately \$35 million was allocated under the SLTPP for the purpose of funding a portion of the construction costs.

## Federal Line of Credit

As in the case of the SJHTC, the F/ETC was able to secure Federal support for the project in the form of a standby line of credit. Authorization for this line of credit was provided under the Fiscal Year 1995 DOT Appropriations Act, in which Congress appropriated \$8 million to fund the capital reserve (subsidy) costs of a \$120 million Federal line of credit available to TCA for the F/ETC.

Similar to the amended SJHTC line of credit, the F/ETC line of credit can be used to help pay debt service, the costs of extraordinary repair and replacement, costs of complying with unexpected Federal or State environmental restrictions, operating and maintenance expenses, and capital expenditures in the event that toll operation's revenues, capitalized interest, and reserve funds are not sufficient to cover such costs during the first 10 years of the toll road's operation.

#### **FEATURES AND STATUS OF THE LINE OF CREDIT**

Only 10 percent of the line is available in any one year. Any draws for capital expenditures, debt service, or other expenses (excluding operations and maintenance) must be repaid within 30 years at the rate on the 30-year Treasury bond plus 48 basis points at the time the draw is made. Draws for operations and maintenance expenses must be repaid within three years at the rate on the three-year Treasury bond plus 48 basis points at the time the draw is made.

#### **LEVERAGING EFFECTS**

At a budgetary cost of \$8 million, the Federal government is providing a \$120 million line of credit that is helping to advance a \$1.8 billion segment of the overall Foothill/Eastern Transportation Corridor. This represents an even larger leveraging ratio of 225 to 1 in terms of capital investment induced to Federal budgetary resources consumed.

### **Additional Information**

For more information on these two projects, visit the Transportation Corridor Agencies website at: <http://www.tcagencies.com/home/index2.htm>